LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6761 | **NOTE PREPARED:** Dec 29, 2012
BILL NUMBER: HB 1065 | **BILL AMENDED:**

SUBJECT: Certified Technology Park Tax Capture Limit.

FIRST AUTHOR: Rep. Messmer | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill provides that if two or more redevelopment commissions agree to undertake joint economic development projects in their respective Certified Technology Parks (CTP), a participating redevelopment commission may transfer part of their CTP's unearned sales and income tax capture limit to another cooperating CTP. This would allow a CTP to capture over $5 M in tax revenue.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR), Indiana Economic Development Corporation (IEDC), and Treasurer of State:* These agencies currently administer different aspects of the CTP program. The services the agencies provide involve CTP authorization, revenue capture computations, and fund distributions. These agencies all have prior expertise in working with CTPs, and their current level of staff and resources should be sufficient to implement this bill.

Explanation of State Revenues: *Summary* - This bill allows a CTP to continue to capture incremental tax revenue beyond it's $5 M lifetime capture limit if another CTP assigns a portion of its unearned capture limit to it. The bill may result in a near term reduction in state revenue as CTPs that have reached their lifetime limit start capturing additional incremental tax revenue assigned from another CTP. Four of the 20 active CTPs have achieved the $5 M lifetime revenue capture limit as of FY 2011. If those 4 CTPs enter into an assignment agreement and begin to capture incremental tax revenue again, it may reduce state revenue by an estimated $6.57 M a year beginning in FY 2014. The state portion of the incremental tax revenue captured by the CTPs is from Sales and Use Tax and state Income Tax. The estimated distribution by tax type and corresponding fund allocation is reported in the table below.

Fund	Sales & Use Tax	State Income Tax	Total
State General Fund	$805,380	$5,763,600	$6,568,980
Industrial Rail Service Fund	$230	-	$230
Commuter Rail Service Fund	$990	-	$990
Total	**$806,600**	**$5,763,600**	**$6,570,200**

<u>*Additional Information*</u> - The CTP program was established to support the attraction and growth of high-technology businesses, promote technology transfer opportunities, and stimulate the creation of jobs in these industries. The IEDC designates an area to be a CTP based on a proposal submitted by a local redevelopment commission or governing body. The proposal must show predicted business activity, job creation, and a commitment of services and support by (1) an institution of higher education; (2) a private, research-based institute; or (3) a military research and development or testing facility on an active military installation.

The designation of a CTP allows a local redevelopment commission to capture incremental revenue from Sales & Use Tax , state Income Tax, and local option income taxes (LOIT) generated by businesses and employees in the CTP. While there is no annual limit on the amount of tax revenue a CTP can capture, there is a lifetime capture limit of $5 M. This bill establishes a procedure for a CTP to transfer a portion of its unearned capture limit to another CTP. This would allow a CTP to capture revenue in excess of $5 M that is assigned by another CTP. However, the bill states that the amount assigned by one CTP to another CTP must be counted against the assignor's lifetime cap of $5 M. So, the total revenue that all CTPs can potentially capture remains the same.

There are 20 active CTPs and 3 new CTPs scheduled to begin operating, so the total revenue that all active and potential CTPs could capture is $115 M. The bill does not change the total combined CTP lifetime revenue limit. By allowing amounts remaining under the capture limits of some CTPs to be reallocated to other CTPs, this bill could accelerate the time it takes to reach the combined capture limit of $115 M.

<u>Explanation of Local Expenditures:</u> Local redevelopment organizations may incur additional expenses to maintain the funds and the conditions of any new agreement they make with other redevelopment organizations. They will likely have sufficient resources to oversee these agreements.

<u>Explanation of Local Revenues:</u> This bill could result in a reduction of (LOIT) revenue in counties where certain CTPs are located. Four CTPs have stopped capturing LOIT revenue because they have reached their lifetime capture limit of $5 M. Those CTPS are Evansville, Indianapolis (IU), Richmond, and West Lafayette. If those CTPs are allowed to capture additional LOIT revenue, the counties where those CTPs reside could begin losing an estimated $198,700 to $1 M a year beginning in FY 2014. This will continue until the new revenue capture limit is reached.

<u>State Agencies Affected:</u> DOR; IEDC; Treasurer of the State.

<u>Local Agencies Affected:</u> Counties that contain a Certified Technology Park.

Information Sources: LSA Income Tax Databases; LSA Fiscal Brief, *Indiana's Geographically Targeted Development Programs: Certified Technology Parks,* September 2010 & 2012.

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